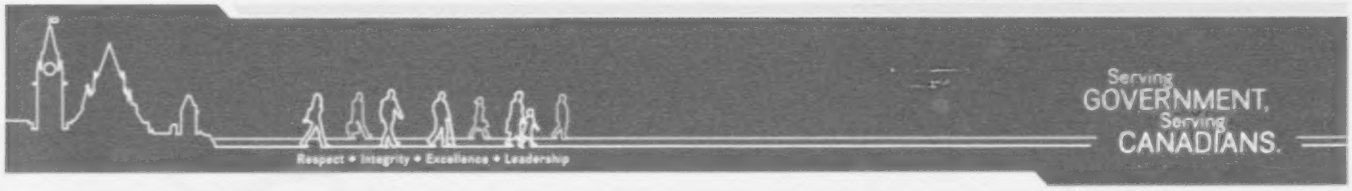
Public Works and Government Services Canada

Travaux publics et Services gouvernementaux Canada

Canada



Quarterly Financial Report

For the quarter ended June 30, 2012

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1. Introduction

This Quarterly Financial Report should be read in conjunction with the *Main Estimates*, *Supplementary Estimates A* as well as *Canada's Economic Action Plan 2012 (Budget 2012)*. It has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

Public Works and Government Services Canada (PWGSC) provides common, central and shared services to other government departments, thereby enabling them to deliver programs and services to Canadians. As the federal government's primary common service provider, PWGSC acts as principal banker, accountant, central purchasing agent, translation authority and real property manager to all government departments, boards and agencies.

Further details on PWGSC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting also known as modified-cash accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying *Statement of Authorities* compares the Department's spending authorities granted by Parliament to those used by the Department. Information in the Statement of Authorities is consistent with that in the *Main Estimates* and *Supplementary Estimates A*.

The authority of Parliament is required before monies can be spent by the government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation granting statutory spending authority for specific purposes.

As part of the Parliamentary business of supply, the *Main Estimates* must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the *Main Estimates* on February 28, 2012. As a result the measures announced in the Budget 2012 could not be reflected in the 2012-13 *Main Estimates*.

In fiscal year 2012-13, frozen allotments will be established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent *Main Estimates* tabled in Parliament.

The Department uses the full accrual method of accounting to prepare and present its annual Consolidated Departmental Financial Statements that are published in the *Departmental Performance Report*. However, the spending authorities voted by Parliament remain on an expenditure basis of accounting.

1.3 PWGSC's Financial Structure

As a common service provider, PWGSC uses a variety of funding mechanisms to achieve its mandate. This includes budgetary authorities that are comprised of voted and statutory authorities, as well as non-budgetary authorities. The voted budgetary authorities include Operating Expenditures, Vote-Netted Revenues, Capital Expenditures and Contributions, while the statutory authorities are mainly comprised of Revolving Funds, the Employee Benefits Plan and Payments in Lieu of Taxes. The non-budgetary authorities consist primarily of the Seized Property Working Capital Account.

PWGSC's complex financial structure may result in significant timing differences on a quarterly basis which are resolved by year end. These are summarized as follows:

- For the most part, PWGSC delivers its services on a cost recovery basis, generating revenues via Revolving Fund ("the Funds") organizations and Vote-Netted Revenue programs. These organizations and programs are mainly designed to provide services to other government departments, and are expected to recover the full cost of their operations through their revenues. However, the costs incurred by the Funds are usually disbursed prior to invoicing the client, which generally occurs upon completion of a project or services rendered, and thus revenues may be collected in a subsequent quarter.

- In addition, PWGSC manages a variety of real property projects that progress through phases from planning to funding and from procurement to construction. Historical trends have shown that expenditures against these projects are not incurred evenly throughout the year; thus, quarter-to-quarter fluctuations are normal.

- Payments in Lieu of Taxes issued by PWGSC on behalf of other participating federal departments are recovered from those departments, and are recorded as statutory grants in the Public Accounts of Canada. The timing difference between the time a Payment in Lieu of Taxes is made and the time it is recovered from another department is funded through a statutory vote.

- PWGSC also manages seized property for the Government of Canada pursuant to the *Seized Property Management Act*. The financial management of this activity is performed through the non-budgetary Seized Property Working Capital Account. Charged to this account are expenditures and advances made to maintain and manage any seized or restrained property. PWGSC recovers its costs when forfeiture and disposition have occurred.

2. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

2.1 Significant changes to authorities *(Net increase of $19.2 million)*

As reflected in the Statement of Authorities, the Department's total authorities available for use in fiscal year 2012-13, as of June 30, 2012, are $2,602 million, compared to $2,583 million at June 30, 2011. The overall increase of $19.2 million (or less than 1%) is explained by the major variances below:

YEAR-OVER-YEAR CUMULATIVE VARIANCES IN AUTHORITIES AVAILABLE FOR USE (as at June 30, 2012)

	VARIANCES IN AUTHORITIES AVAILABLE FOR USE				
(in millions of dollars)	Operating	Capital	Contribution	Budgetary Statutory Authorities	TOTAL VARIANCES
Long Term Vision and Plan for the Parliamentary Precinct	(8.3)	176.0			**167.7**
Transfer to Shared Services Canada	(109.4)	(4.4)		(8.9)	**(122.7)**
Federal Contaminated Sites	46.0				**46.0**
Strategic Review	(41.9)				**(41.9)**
Pay Modernization	(0.2)	(16.7)		(0.3)	**(17.2)**
Pay Consolidation Project - Transfers from other departments	3.6				**3.6**
Others*	(17.5)	(2.4)	0.3	3.3	**(16.3)**
CUMULATIVE VARIANCES IN AUTHORITIES AVAILABLE FOR USE	**(127.7)**	**152.5**	**0.3**	**(5.9)**	**19.2**

* Consisting mainly of transfers to other government departments

YEAR-OVER-YEAR CUMULATIVE VARIANCES IN AUTHORITIES AVAILABLE FOR USE (as at June 30th) – *Continued*

LONG TERM VISION AND PLAN FOR PARLIAMENTARY PRECINCT (LTVP)

Approved budget of $167.7 million: Continued implementation of the LTVP to ensure preservation of the Parliament Buildings as heritage assets and national symbols. The funding is related to the five year program of work under LTVP, which began in 2010-11. The projects for LTVP are on time and on budget.

TRANSFER TO SHARED SERVICES CANADA (SSC)

Decrease of $122.7 million: Effective August 4, 2011, PWGSC transferred its information technology service activities to SSC for a total amount of $122.7 million.

FEDERAL CONTAMINATED SITES

Increase of $46.0 million: The increase in funding will secure remediation and assessment activities at federal contaminated sites under the custody of PWGSC in order to reduce human health and environmental risks and associated financial liabilities. Most of the funding is for the Esquimalt Graving Dock site.

STRATEGIC REVIEW

Decrease of $41.9 million: PWGSC's contribution to the government's Strategic Review exercise has resulted in a decrease in funding of $41.9 million in 2012-13, mainly through increased efficiency and effectiveness.

PAY MODERNIZATION PROJECT

Decrease of $17.2 million: The goal of the Pay Modernization Project which began in 2009-10 and ends in 2015-16, is to replace the Government of Canada's 40-year-old pay system for the benefit of all departments. The 2012-13 reduction is due to the fact that the project is completing the planning phase. Additional expenditure authority will be requested once the fit-gap analysis is completed.

PAY CONSOLIDATION PROJECT – TRANSFERS FROM OTHER DEPARTMENTS

Increase of $3.6 million: The Consolidation of Pay Services Project will gradually transfer pay administration services from government departments to a new PWGSC Pay Centre of Expertise located in Miramichi, New Brunswick. The transfer will take place over a five-year period starting in 2012.

2.2 Significant changes to Net Expenditures *(Net increase of $33.5 million)*

As at June 30, 2012, the Department's trend in planned and expended expenditures, as presented in *Departmental Budgetary Expenditures by Standard Object*, is consistent with the same quarter of the previous year exclusive of the impact of information technology services transferred to Shared Services Canada.

Consistent with the same quarter of 2011-12, approximately 30% of annual planned expenditures was expended in the first quarter of 2012-13.

Of the $33.5 million increase in Total Net Budgetary Expenditures used, the most significant variances are found in the following categories:

- Personnel – Decrease of $35 million;
- Transportation and Communications – Decrease of $26.2 million;
- Rentals – Increase of $30.2 million; and,
- Transfer Payments – Increase of $44.7 million.

The above variances are mainly attributable to:

- The transfer of information technology services, and the associated employees, to Shared Services Canada;
- A reduction in employees due to the winding down of the Government Consulting Services and Audit Services functions as a result of Strategic Review. These activities were seen to overlap with the capabilities and capacity of the private sector and were not seen as performing a core government function;
- Services provided to other government departments for which PWGSC will be reimbursed in a subsequent quarter. This applies to office rentals as well as to payments in lieu of taxes to municipalities made by PWGSC on behalf of other government departments.

It is worth mentioning that the distribution of planned expenditures by standard object may not align with the distribution of year-to-date actual expenditures as the planned expenditures are based on historical spending trends. In order to better support business priorities during the fiscal year, the Department realigns its actual expenditures between standard objects.

3. Risks and Uncertainties

PWGSC integrates risk management principles into business planning, decision-making and organizational processes to minimize negative impacts and maximize opportunities in service delivery. Based on its most recent risk assessment exercise, PWGSC has identified one risk as having a potential financial impact, namely increasing fiscal restraint.

There is a risk that the strategies deployed to implement the Operating Budget Freeze (Budget 2010) and the Strategic Review (Budget 2011) may not fully materialize. In 2012-13, these initiatives have resulted in:

- A freeze in operating budgets that took effect in 2010-11 and that includes absorbing $7.8 million in regular salary increases in 2012-13, for a cumulative savings of $23.8 million; and,
- Savings of $49.5 million in response to the government-wide Strategic Review Exercise. Of this amount, $41.9 million was reduced from departmental funding and $7.6 million was achieved by providing lower cost accommodation solutions.

In addition to the challenge of managing the effects of fiscal restraint measures on its own operations and services, PWGSC must manage the financial uncertainty that results from its role as a common service provider, and its significant

dependency on revenue provided by client departments. Nearly 60 per cent of the Department's expenditures are derived from cost-recovery.

To mitigate this risk, PWGSC is closely monitoring the effects on its service lines of other departments' efforts to reduce the deficit. A major effort to accomplish this objective is the implementation of a Client Service Strategy (CSS), which establishes a consistent set of service values, practices and client service management tools. Through improved ongoing dialogue with clients, PWGSC is able to assess and respond to changes in demand for service from client departments, and thus far, the revenue impacts have been manageable. The CSS has positioned PWGSC as an innovative and integrated common service delivery organization. The expected outcomes of a strong client focus are more clearly defined services and their method of delivery, more predictable service levels, better communication, and ultimately higher levels of client satisfaction.

Human resources capacity continues to be a priority for PWGSC as approximately 25% of the Department's employees will be eligible for retirement by 2016-17. In order to ensure PWGSC maintains the skilled and dedicated workforce to deliver its services, the Department has developed measures to be an employer of choice, including the PWGSC People Management Philosophy and its related commitments. PWGSC has also implemented various human resource strategies such as leadership development, talent management and knowledge transfer in order to develop the skills and competencies needed to lead the Department into the future. With its strong focus on human resource management, PWGSC is well positioned to have a dynamic, deployable and diverse workforce to address its needs today and for years to come. The Department's human resource strategies for addressing impacts of expenditure restraint are further described in Section 4.

To improve the integrity of its procurement and real property transactions, PWGSC recently announced that it has broadened the list of offences that render companies and individuals ineligible to bid on contracts and real property transactions. Through these measures, PWGSC is enhancing its due diligence, reducing potential for fraud, and strengthening its ability to manage risk.

Finally, there is a risk that PWGSC's restrictive funding model may compromise the department's ability to allocate resources to address key priorities and various funding pressures. Mitigation measures have been taken, notably through the implementation of a more robust Financial Management Framework, the practice of sound integrated investment planning, and by implementing a more rigorous approach to the management of revenues, expenditures, forecasting and commitment monitoring. The Department continues to adhere to its budget management excellence practices. These practices provide assurance that public funds are managed with requisite due diligence and oversight. The budget management practices are supported by effective financial management, planning, budgeting, monitoring and reporting.

4. Significant Changes to Operations, Personnel and Programs

Like many other departments, PWGSC has gone through a Strategic Review exercise where program spending was reviewed to ensure that government programs and services meet the priorities of Canadians and are aligned with federal responsibilities.

In order to minimize the impact of its Strategic Review initiatives on employees, the Department uses vacancy management, which allows for matching of affected staff to vacant positions. PWGSC also ensures that all methods and strategies adopted are in line with government directives, collective agreements and related statutes.

For employees who were affected by job reductions, the Department developed sound governance and a comprehensive human resources plan to address the impacts and assist them during this period. A team of human resource experts has been assembled with the sole purpose of assisting in the placement of affected employees within the department or within government. In addition, employees have been provided with tools and services such as

career counselling to assist them in securing new employment. The department established a Priority Placement Unit, as well as a Strategic Resourcing Committee to ensure ongoing support to affected employees.

In the first year of Strategic Review (2011-12), 307 employees were affected. The department was successful in securing new employment for 96% (or 295) of these employees and human resources strategies continue to be developed to help all remaining affected employees find positions. In the second year of Strategic Review (2012-13), which was announced in April 2012, 74 employees have been affected, and 60 (or 81%) have already been placed.

Thus far, the impacts on PWGSC employees from client departments' reductions in business volume are moderate. Of the 86 employees affected, 50% have already secured new employment. The impacts on these employees will also be managed using the same process successfully put in place for Strategic Review.

To assist in the placement of employees, PWGSC continues to promote the use of "alternation" to provide an opportunity for those public servants in non-impacted positions who wish to leave the public service to switch positions with an employee who has been declared "opting". In addition, PWGSC is one of 13 departments that is participating in a virtual career fair pilot project. Organized by Treasury Board, in co-operation with Monster.ca, the job fair will be targeted specifically to affected and opting federal government employees. Over 180 private and other public-sector employers who are interested in hiring employees from the federal public service have already registered.

The Department is continuing to move forward with the transformation of the Government of Canada's pay and pension administration by implementing industry standard systems and business processes, and by consolidating services. In addition, PWGSC's transformation agenda is already allowing us to adapt to changes in client requirements. For example, translation services have been undergoing a business transformation in response to changing client requirements, and procurement services have been moving from routine, low-value transactions to more specialized, complex and high-value procurements in response to client needs.

PWGSC intends to phase out cheques in favour of direct deposit as a more reliable, efficient, secure and greener payment method.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that will be implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

PWGSC has committed to Budget 2012 savings of $177.6 million on an ongoing basis. The savings initiatives are in two key areas:

1. Contributing to a more affordable public service by reducing office accommodation costs through the recapture of surplus space and new accommodation standards; and
2. Achieving savings by concentrating on core functions, streamlining processes and eliminating redundancies and overlap, thereby ensuring value for taxpayer money. This will be achieved by modernizing information technology infrastructure to reduce costs; transitioning to electronic publications; and adopting online service delivery to Canadians and businesses.

In the first year of implementation, PWGSC will achieve savings of $1.5 million. Savings will increase to $28.1 million in 2013-14 and $85.3 million in 2014-15 and will result in ongoing savings of $177.6 million by 2018-19. While many of the savings initiatives will be achieved in the first three years, the real property initiatives will be introduced over the next seven years as leases and occupancy agreements expire. With these changes, and building on progress made in recent years, PWGSC is transforming to better serve its clients through increased efficiency and effectiveness.

Nearly 60 per cent of PWGSC's expenditures are derived through cost recovery from client departments. Financial risks and uncertainties related to Budget 2012 savings initiatives as departments implement their own reductions will be mitigated by PWGSC. Mitigation will be undertaken by working closely with departments through its client service network to identify these changing requirements and the impact on the department. Further detail on the risks and related mitigation strategies common to all of PWGSC's fiscal restraint measures may be found in Section 3 of this report, Risks and Uncertainties.

As the Department did for Strategic Review, PWGSC has put in place a human resources plan to assist employees during the implementation of its initiatives. Senior managers are working closely with human resources experts to ensure that all impacted employees are given priority in all staffing actions.

Approved by:

François Guimont, Deputy Minister
Public Works and Government Services Canada

Gatineau, Canada
August 29, 2012

Alex Lakroni, Chief Financial Officer
Public Works and Government Services Canada

Gatineau, Canada
August 29, 2012

STATEMENT OF AUTHORITIES (UNAUDITED)

For the quarter ended June 30, 2012

(in thousands of dollars)	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Total available for use for the year ending March 31, 2013 [1] [2] [3]	Used during the quarter ended June 30, 2012	Year to date used at quarter end	Total available for use for the year ending March 31, 2012 [1] [3]	Used during the quarter ended June 30, 2011	Year to date used at quarter end
Vote 1						
Gross Operating Expenditures	3,205,261	712,590	712,590	3,406,963	717,700	717,700
Vote-Netted Revenues	(1,216,499)	(277,792)	(277,792)	(1,290,529)	(273,794)	(273,794)
Net Operating Expenditures	**1,988,762**	**434,798**	**434,798**	**2,116,434**	**443,906**	**443,906**
Vote 5 - Capital Expenditures	**496,992**	**61,407**	**61,407**	**344,512**	**34,010**	**34,010**
Vote 10 - Contribution Expenditures	**5,497**	**1,436**	**1,436**	**5,210**	**690**	**690**
Statutory Authorities						
Revolving Fund Gross Expenditures	2,100,482	276,840	276,840	2,296,281	316,206	316,206
Revolving Fund Revenues	(2,083,029)	(202,158)	(202,158)	(2,282,052)	(215,766)	(215,766)
Revolving Fund Net Expenditures	**17,453**	**74,682**	**74,682**	**14,229**	**100,440**	**100,440**
Other Budgetary Statutory Expenditures [3]	**93,084**	**251,573**	**251,573**	**102,251**	**211,363**	**211,363**
Total Budgetary Statutory Authorities	**110,537**	**326,255**	**326,255**	**116,480**	**311,803**	**311,803**
Total Budgetary Authorities	**2,601,788**	**823,896**	**823,896**	**2,582,636**	**790,409**	**790,409**
Non-Budgetary Authority						
Seized Property Working Capital Account	-	(133)	(133)	-	(3,897)	(3,897)
TOTAL AUTHORITIES	2,601,788	823,763	823,763	2,582,636	786,512	786,512

Net increase of $19.2 million

1) Includes only Authorities available for use and granted by Parliament at quarter-end

2) Total available for use does not reflect measures announced in Budget 2012

3) Consistent with presentation in the Main Estimates, Total available for use for the year for both 2012 and 2013, under Other Budgetary Statutory Expenditures, is presented net of planned PILT payments made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (UNAUDITED)

For the quarter ended June 30, 2012

(in thousands of dollars)	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Planned expenditures for the year ending March 31, 2013 [1) 2) 3)]	Expended during the quarter ended June 30, 2012	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2012 [1) 3)]	Expended during the quarter ended June 30, 2011	Year to date used at quarter end
Expenditures						
Personnel	1,027,938	267,930	267,930	1,126,583	302,967	302,967
Transportation and communications	90,026	17,741	17,741	230,137	43,979	43,979
Information	12,846	1,411	1,411	15,930	1,520	1,520
Professional and special services	1,446,759	159,028	159,028	1,546,152	164,961	164,961
Rentals	971,257	310,824	310,824	966,059	280,673	280,673
Repair and maintenance	1,233,849	141,974	141,974	1,164,423	156,525	156,525
Utilities, materials and supplies	213,495	28,465	28,465	198,783	24,407	24,407
Acquisition of land, buildings and works	233,911	47,471	47,471	209,807	30,774	30,774
Acquisition of machinery and equipment	80,663	2,958	2,958	106,317	3,985	3,985
Transfer payments [3)]	5,497	229,784	229,784	5,210	185,073	185,073
Public debt charges	-	-	-	87	-	-
Other subsidies and payments	585,075	96,260	96,260	585,729	85,105	85,105
Total gross budgetary expenditures	5,901,316	1,303,846	1,303,846	6,155,217	1,279,969	1,279,969
Less revenues netted against expenditures						
Revolving Fund Revenues	(2,083,029)	(202,158)	(202,158)	(2,282,052)	(215,766)	(215,766)
Vote-Netted Revenues	(1,216,499)	(277,792)	(277,792)	(1,290,529)	(273,794)	(273,794)
Total revenues netted against expenditures	(3,299,528)	(479,950)	(479,950)	(3,572,581)	(489,560)	(489,560)
TOTAL NET BUDGETARY EXPENDITURES	2,601,788	823,896	823,896	2,582,636	790,409	790,409

Net increase of $33.5 million

1) Includes only Authorities available for use and granted by Parliament at quarter-end

2) Planned expenditures do not reflect measures announced in Budget 2012

3) Consistent with presentation in the Main Estimates, Planned expenditures for the year for both 2012 and 2013, under Transfer Payments, are presented net of PILT planned payments made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.